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SUBJECT: Mexico Economic Weekly - October 30

[1](#)1. (U) The Mexico Economic Weekly supplements reporting from Mission Mexico Consulates and the Embassy Mexico Economic Section to provide a sense of ongoing trends. Please contact Adam Shub (shubam@state.gov) or Sigrid Emrich (emrichs@state.gov) for questions or comments about this report.

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ECONOMY AND FINANCE

¶3. (U) MEXICAN CONSUMERS SIZABLE PART OF MCALLEN, TEXAS
RETAIL BASE: In a meeting with PO and EconOff October
29, 2009, Vice Presidents of the McAllen Chamber of
Commerce outlined the effect that Mexican retail tourism
has on their city. They described shoppers from
Monterrey as "power shoppers" who come to McAllen every
one and a half (1.5) months, spend an average of USD
\$1,100 per person, and stay in the city for two nights.
Approximately 30% of the USD \$1,100 is spent in services
(restaurants, hotels). They also noted a sizable group
of retail tourists who come from Mexico City,
approximately once every three months, and spend an
average of USD \$3,000-\$3,500 per person. The overall
impact of Mexican retail tourism in McAllen is impressive
- in a city where the average household income is USD
\$55,000/year, McAllen has an average of USD \$82,000/year
per household in retail sales. (Matamoros)

¶4. (U) FAINT LIGHT AT THE END OF THE TUNNEL AS SONORA
ANTICIPATES WEAK GROWTH IN 2010: Speaking at the
Manufacturing in Mexico Summit to more than 100 investors
and manufacturing managers, Dr. Deborah Riner, Chief
Economist for the U.S. Mexico Chamber of Commerce,
predicted weak economic growth in 2010 as demand for
manufactured goods in the U.S. is only expected to see
modest increases. The Offshore Group, one of Mexico's
largest maquila operators, held its 15th annual summit to
discuss the investment climate in Sonora, Mexico on
October 23. Fifty percent of the workforce, 7,200
workers, has been downsized since October 2007 at the
largest maquila operator, Maquilas Tetakawi, as orders
have diminished in relation to slowdowns in the
electronics and aviation industries. Operators were
encouraged by the predictions that the biggest fall in
demand is over and by expectations that the peso's
exchange rate volatility is abating. The state's new
governor, Guillermo Padres, spoke at the conference
signaling that the new state government would continue to
promote an investment-friendly environment for foreign
companies. Twenty new, potential manufactures from the
U.S., Canada, and Germany attended the conference. On a
related note, econoff met the plant manager for Radiall
USA, a maker of cable connectors and antennas. In 2008,
the company opened a plant in Ciudad Obregon, Sonora to
fill orders for Boeing's new 787 Dreamliner. The 500
person plant is operating at 25 percent capacity as
Boeing has delayed the launch of the new aircraft several
times over the last year. They anticipate increasing
production as orders increase mid-year 2010.
(Hermosillo)

TRADE AND INVESTMENT

¶5. (U) EMBASSY SPONSORED IPR TRAINING PAYS OFF AS
MEXICAN CUSTOMS SEIZE COUNTERFEIT PRODUCTS: The Servicio
de Administracion Tributaria published two press releases
late October reporting on separate seizures by Mexican
customs authorities of counterfeit goods at the ports of
Ensenada and Lazaro Cardenas on the Pacific shore of
Mexico. On September 29, customs authorities in Ensenada
seized 31,000 false decals for Barbie, Hello Kitty,
Mickey Mouse, and Sponge Bob products. On October 20,
customs authorities in Lazaro Cardenas seized three
containers containing roughly 60 tons of counterfeit
sporting goods and accessories bearing the fraudulent

marks of Louis Vuitton, Adidas, Tous, Puma, and Nike, among others. The customs authorities credited newly implemented risk analysis and detection techniques. These seizures follow a training program, coordinated by the US Embassy, on detecting, detaining, and deterring the importation of pirated and counterfeit goods for Mexican customs and law enforcement officials in Manzanillo from September 8-11. Customs agents from Ensenada and Lazaro Cardenas were among the 59 participants. (Mexico City)

¶6. (U) CEMEX PROFITS DROP SHARPLY: Monterrey-based CEMEX, the world's third largest cement producer, announced that net income plunged almost 40 percent in the third quarter due to a global drop in sales, declining by 27 percent in Mexico and 38 percent in the U.S., the company's largest market. While executive vice

president Hector Medina said he is optimistic about the stability of future sales after successfully completing the company's refinancing this quarter, he admitted that CEMEX expects 2009 cement volume to decrease by 30 percent in the U.S., where his company is the country's largest cement producer. (Monterrey)

¶7. (U) LOCAL TRANSPORTATION MANUFACTURER ENJOYS GROWTH DESPITE CRISIS: TYTAL, a nine year old Nuevo Leon-based manufacturer of aluminum products for the transportation and storage of combustible liquids and flammable materials, has enjoyed consistent growth despite the economic crisis. In 2009, annual sales nearly doubled to \$35 million dollars, allowing the company to increase its workforce by 76% to 255 employees and move into a new 8,500 square meter production facility. Luis Alberto Arrasco, TYTAL's business manager, attributed the company's success to increased demand from PEMEX's production facilities in Veracruz and Tabasco and the company's low production cost for aluminum tanks - 40%

below the international market average. TYTAL, Mexico's first aluminum tank truck manufacturer, is the largest supplier of 20,000 liter tanker trucks to PEMEX and has sold 80 trucks to the company this year, doubling last year's sales to the company. (Monterrey)

¶8. (U) ECONOMIC CRISIS IS A BOON TO LOCAL COUNTERFEITERS: According to Gilberto de Hoyos Koloffon, the regional President of the Mexican Association for the Protection of Intellectual Property, the economic crisis has "detonated an explosion" in the production and sale of pirated products in Mexico. De Hoyos says that in Nuevo Leon, music CDs, movie DVDs and computer software are the most commonly pirated products, but that he is very concerned about local counterfeiters' continued expansion into footwear, clothes and medicine. He noted a strong correlation between the increase in piracy in Nuevo Leon and local unemployment. Many of the region's unemployed have turned to counterfeiting as a cheap alternative to searching for a legitimate job since it requires little investment and offers an easy way to take advantage of the increased demand for cheaper goods as people cut back on consumer spending. (Monterrey)

TRANSPORTATION AND INFRASTRUCTURE

¶9. (U) SCT: SCALED BACK PUNTA COLONET STILL ALIVE: One year since the downturn hit, the Secretariat of Communications and Transportation (SCT) continues a dogged effort to demonstrate the viability of the Punta Colonet project. The megaport flagship of the National Infrastructure Plan (NIP) has become the symbol by which many measure NIP success. SCT Secretary Molinar visited the site of the unrealized port on 8 October and his ministry published a long-promised redesign of the bid specifications on 19 October. The specs do not set a

date to award the winning bid. According to SCT, 4 consortiums are interested. Additional bidders are welcome until 3 November. The revised plan envisions a reduced initial phase to handle 1 million 20-foot container equivalent units (TEUs) per year, half the capacity of the original first phase. Subsequent expansion to a maximum capacity of 10 million TEUs will take more than the 20 years first proposed. President Calderon pushed in 2008 and early 2009 for the Punta Colonet rail link to the U.S. to cross the frontier at Santa Teresa, New Mexico. SCT has backed away from this 700-kilometer long tie-in to the U.S. rail network, now seen as too expensive. The rail crossing point is dependent on the proposal of the winning consortium, with Yuma, Arizona the new favorite. The worst case growth estimate for the trans-Pacific container trade in the initial Colonet plan was 3.9% annually; the figure for 2009 is double-digits negative, and experts' prognoses for medium term recovery are mixed. Container traffic at Los Angeles and Long Beach, which together handle 36% of the U.S. volume (and a share of whose trade Colonet hopes to capture), was off 16% and 21% year-on-year respectively in September. (Mexico City)

¶10. (U) AIR PASSENGER TRAFFIC THROUGH CIUDAD JUAREZ FALLS BY 33 PERCENT: Airline passenger traffic at the Juarez International Airport fell by 33 percent this year to September compared with the same period in 2008 (Jan-Sept 2008 - 723,412; Jan-Sept 2009 - 486,817), according to the Operadora Mexicana de Aeropuertos (OMA). OMA attributes the drop in traffic through Juarez to the suspension of Aviacsa and Alma airline operations, which in 2008 accounted for almost half of the daily flights through the city's airport. Other industry analysts argue that traffic volume fell largely because of lower demand, not supply constraints. In this view, demand for air travel is down in Juarez due to the drug-related violence and the economic slowdown. Mexico's Secretary of Transportation and Communication (SCT) reported that nationwide passenger traffic fell by 17 percent during this same period. (Ciudad Juarez)

ENERGY AND ENVIRONMENT

¶11. (U) BARK BEETLES THREATEN MONARCH BUTTERFLY RESERVE: Mexican officials are reporting an outbreak of bark beetles in the Monarch Butterfly Reserve, a World Heritage Site and one of the largest and most controversial protected areas in Mexico. Scientists and Mexican authorities believe the infestation is a result of two years of severe drought. Authorities have begun to fell selected trees as part of a "sanitation logging" program, which has divided environmentalists and local communities. Neither the beetle nor the sanitation program will affect the number of butterflies that will arrive this year, but their survival throughout the winter will depend in part on the abundance of trees in the reserve. (Mexico City)

¶12. (U) MEXICO-GUATEMALA INAUGURATE ELECTRICITY LINK DURING CALDERON STATE VISIT: Mexico and Guatemala inaugurated a \$50 million electricity link on October 26 that will allow the Central American nation to buy power from Mexico. The transmission line is 100 kilometers long and runs from Tapachula, on Mexico's border with Guatemala, to the city of Retalhuleu near Guatemala's Pacific coast. Mexican President Calderon, in Guatemala for a State visit, hailed the project as "the first step towards making the interconnection, to which my government is committed, of the entire Project Mesoamerica, in other words, between Mexico and Colombia, by supplying electricity to every Central American nation". Backers of the regional power grid say it will cut energy costs for Central America and make investments in new generating capacity more attractive. The interconnection has a capacity of 400 megawatts. For now Guatemala will purchase 120 megawatts of power from

Mexico's Federal Electricity Commission (CFE) which has considerable surplus generating capacity after demand growth in Mexico earlier this decade fell far short of projections. The system integration should be completed in mid-2010 but significant regulatory issues need to be resolved before the network will attract major new investments. Reports identifying key differences between national level regulatory regimes are being prepared and should be presented to key stakeholders by the end of the first quarter of 2010. (Mexico City)

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